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SUBJECT: BIDDERS ON PANAMA CANAL DESIGN/BUILD CONTRACT FACE
NEW HURDLES

REF: PANAMA 1719

11. (SBU) SUMMARY. On November 15, 2007, four consortia submitted Statements of Qualification in order to qualify to bid on the contract to design and build the Panama Canal's third set of locks and water recycling basins. The Panama Canal Authority (ACP) is expected to announced the qualified bidders by the end of December 2007. The Bechtel-led consortia is the only U.S.-led consortium. Two of the consortia are led by Spanish firms and one by a French firm. Of the 28 companies, four are from the U.S. The value of the design/build contract is estimated at \$3.7 billion, representing the largest chunk of work on the Panama Canal's \$5.25 billion expansion project. EmbOffs have heard numerous negative comments regarding Bechtel by ACP officials and people familiar with the ACP. The ACP sought to limit participation of Chinese firms by requiring audited financial statement from the Big Three accounting firms. The reality of inadequate infrastructure, labor shortages, the declining U.S. dollar, inflation, and potentially newfound seismic risks could have a substantial effect on the ACP's design/build budget. END SUMMARY.

Four Consortia Bid to Design/Build New Locks

12. (U) On November 15, 2007, four consortia, comprising 28 companies from 13 countries, submitted Statements of Qualification in order to qualify to bid on the contract to design and build the Panama Canal's third set of locks and water recycling basins.

13. (U) Only one consortium is led by a U.S. company; two are led by Spanish companies and one by a French company. The four consortia are (i) Consortium Bechtel, Tasiei, Mitsubishi Corporation led by U.S. firm Bechtel International, Inc.; (ii) Consortium C.A.N.A.L by Spanish firm ACS Servicios, Comunicaciones y Energia, S.L.; (iii) Grupo Unidos por el Canal led by Spanish firm Sacyr Vallehermoso S.A.; and (iv) Consortium Atlantico-Pacifico de Panama led by French firm Bouygues Travaux Publics. A complete list of participating companies is listed below in paragraph 20.

14. (U) Of the 30 companies participating, Spain has the highest number with five, followed by the U.S. and Brazil with four, France with three, Germany, Netherlands and Japan with two, and Panama, Italy, Belgium, Mexico, the United

Kingdom and China with one.

¶15. (U) The Bechtel-led bid is being managed out of Bechtel's London office. The Spanish Consortium C.A.N.A.L. is the only consortium without a U.S. company; it has four of the five participating Spanish companies.

¶16. (U) By the end of December 2007, the ACP is expected to announced the consortia who have qualified to bid on the design/build contract. The consortia will have until August 2008 to submit their bids. The winner is expected to be announced sometime in December 2008. It is anticipated that each consortia will spend between \$18 and \$22 million to prepare their bids.

Design/Build Contract

¶17. (U) The design/build contract would consist of the design and construction of the new third set of locks and water recycling basins on the Atlantic and Pacific coasts. The ACP estimated construction will take approximately five to six years and employ between 7,000 and 9,000 direct workers.

¶18. (U) The ACP has budgeted \$3.35 billion for this phase of the expansion project. Within the \$5.25 billion overall budget, \$530 million is included to account for inflation at 2% per annum over the estimated eight year life of the entire expansion project. Allocating the design/build portion's pro-rata share of the inflation adjustment, the actual budget for the design/build contract is \$3.726 billion.

¶19. (U) Of the \$3.726 billion design/build budget, \$3.0

billion is allocated to construction of the new locks (which includes \$590 million for contingencies and \$276 million in pro rata projected in inflation increases) and \$693 million is allocated to construction of the water recycling basins (which includes \$140 million for contingencies and \$73 million in pro rata projected inflation increases).

Prospects for U.S. Companies

¶10. (U) Of the four U.S. companies (Bechtel International, Tetra Tech, Montgomery Watson Harza (MWH) and AECOM), Bechtel had a prior relationship with the ACP and MWH has an office in Panama. The design/build contract would be Tetra Tech's and AECOM's first major project in Panama. MWH was one of the companies the ACP touts as helping it prepare the expansion project budget.

¶11. (SBU) EmbOffs have heard numerous negative comments regarding Bechtel by ACP officials and people familiar with the ACP. Apparently, ACP's senior and middle level management view Bechtel personnel as arrogant and overbearing. A former ACP consultant told EconOff in March 2007 that the Bechtel is "disliked" within the ACP. Bechtel executives told EconOff in October 2007 that they know that they "have work to do" in improving their image within the ACP.

ACP Administrator Limits Chinese Participation

¶12. (U) There is only one Chinese company, Wuchang Shipyard, participating in the design/build bidding process, despite the existence of a fair number of arguably qualified Chinese firms. Wuchang is part of the Bechtel-led consortium.

¶13. (SBU) On November 21, a current ACP consultant told EmbOffs that ACP Administrator Alberto Aleman Zubieta deliberately sought to exclude Chinese companies from bidding. Aleman reportedly insisted, over the advice of some advisors, that every bidder must have financials audited by a

a Big 3 accounting firm (Deloitte & Touche, KPMG, Pricewaterhousecoopers or Ernst & Young). This requirement apparently excluded virtually every potential Chinese company. ACP officials separately confirmed that Aleman was concerned about perpetuating the myth that the Chinese run the canal and creating tensions with the USG.

Bidders Face Infrastructure, Labor and Financial Hurdles

¶14. (SBU) A current ACP consultant told EmbOffs that he has serious concerns about the ability to complete the expansion projected within the current timeframe and budget. He maintained that Panama's infrastructure is wholly inadequate to handle the movement of hundreds of heavy machinery and thousands of workers. He noted that whoever wins the design/build contract will have to build numerous roads and worker housing units. The consultant also noted that the ACP's plans make no provision for temporary worker housing. Without such housing, workers would likely have to commute over two hours each way to the work sites. The consultant said such an arrangement appears unworkable. To date, the GOP maintains that it will not allow temporary worker housing or tent cities along the canal.

¶15. (SBU) The ACP consultant said he believes the GOP and ACP will have no choice but to import thousands of skilled workers. When told by EmbOffs of the requirement that 90% of all workers be Panamanians (with certain limited exceptions) he said that the GOP will have to amend the labor code to allow the vast numbers of foreign workers needed (reftel). (Comment: The GOP, labor unions, and industry leaders have mightily resisted revising Panama's labor code in relation to the U.S.-Panama Trade Promotion Agreement. It is unlikely they would relent to opening the labor market for foreign workers on the canal expansion project. End Comment.)

¶16. (U) Since the ACP announced the expansion project's price tag in April 2006, the U.S. dollar has declined approximately 23% against the Euro. Accordingly, for the European and U.S. firms who operate in non-U.S. dollar denominated currencies, the value of the design/build contract has also declined. The design/build contract would have to be at least at least \$3.69 billion to make up for the U.S. dollar's decline versus the Euro.

¶17. (U) Panama's inflation rate is far outpacing the 2% annual rate assumed by the ACP budget. For the twelve month period ending November 30, 2007, the inflation rate in Panama was 6.5%. Inflation for 2007 is expected to exceed 6% for the first time since the Comptroller General's office has been maintaining such statistics. This would also potentially increase the design/build contract's price tag.

Comment

¶18. (U) As noted by Bechtel executives in reftel, the U.S. participation in the design/build phase will be limited and possibly nonexistent if Consortium C.A.N.A.L wins. The Spanish are already major investors in Panama in areas such as construction, tourism, hotels, and infrastructure projects.

¶19. (SBU) As the bidders perform their due diligence, many of the challenges which heretofore were not examined will become prominent. The labor shortage, inflation, and infrastructure needs could easily cause bids to come in well in excess of the ACP budgeted amount. Moreover, newly emerging indications of potentially serious seismic risks in Central Panama (septel) could prompt the ACP to re-design the project to mitigate against potential earthquake damage, thereby increasing the project's price tag. A significant deviation from the ACP budget could damage the ACP's and GOP's credibility.

List of Participating Companies

120. (U)

Consortium Bechtel, Taisei, Mitsubishi Corporation

- Bechtel International, Inc - USA (leader)
- Taisei Corporation - Japan
- Mitsubishi Corporation - Japan
- Wuchang Shipyard - China

Consortium C.A.N.A.L

- ACS Servicios, Comunicaciones y Energia, S.L. - Spain (leader)
- Acciona Infraestructura, S.A. - Spain
- Fomento de Construcciones y Contratas - Spain
- Hochtief Constructions AG - Germany
- Constructora ICA, S.A. de C.V. - Mexico
- Sener Ingenieria y Sistemas S.A. - Spain
- Mott MacDonald Ltd - United Kingdom
- Haskoning Nederland BV - Netherlands

Grupo Unidos por el Canal

- Sacyr Vallehermoso S.A. - Spain (leader)
- Impregilo S.P.A. - Italy
- Jan de Nul N.V. - Belgium
- Constructora Urbana, S.A. - Panama
- Montgomery Watson Harza - USA
- IV-Groep - Netherlands
- Tetra Tech - USA
- Heerema Fabrication Group - Netherlands

Consortium Atlantico-Pacifico de Panama

- Bouygues Travaux Publics - France (leader)
- Bilfinger Berger - Germany
- VINCI Construction Grand Projets - France
- Construcoes e Comercio Camargo Correa S.A. - Brazil
- Construtora Andrade Gutierrez S.A. - Brazil
- ALSTOM Hydro Energia Brasil - France
- BARDELLA Industrias Mecanicas - Brazil
- AECOM - USA

ARREAGA